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JAPAN

LOOKING TO THE FUTURE: THE ECONOMY IN 1990S

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NOTICE TO READERS: An * indicates material not disseminated in electronic form.

JAPAN

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* Outlook, Problems for Economy in 1990's

* Overview

902A0119A Tokyo ECONOMY SOCIETY POLICY in Japanese Feb 90 pp 2-3

[Article by Shinyasu Hoshino, deputy director general for administration, Economic Planning Agency]

[Text] Our national economy is in the middle of a sustained expansion phase. Domestic demand is holding firm thanks mainly to private consumption and investment in plant and equipment, corporate earnings are rising more than ever, and employment situation is continuing to improve. The current cycle of business expansion is in its fourth year; it has already surpassed the so-called "Jimmu" boom and is now ranked next only to the "Iwado" and "Izanagi" boom in scope. In contrast to the decade of 1980's, which began with a downturn in general business activity in the wake of the second oil shock, the decade of 1990's seems to have made an auspicious start. Looking back, however, it is also fair to say that the 1990's have inherited the task of resolving various structural problems that came to the fore on the domestic as well as external scenes during the 1980's.

The strong dollar and high interest rates during the first half of the 1980's engendered the problem of twin deficits—budget deficit and trade deficit—in the United States while making debt repayments difficult for developing nations, thereby creating the problem of mounting debts among the Third World countries. Meanwhile, the economy of our country assumed the path of growth geared to external demands. As a result, our economic frictions with foreign countries became aggravated, the closed nature of our markets became an issue, and it became a matter of heightened importance that our country's economic structure be gradually changed to make it more congruous internationally.

As the second half of the 1980's began, an agreement was reached among the world's advanced nations to put a stop to the rising value of the dollar; with that as a turning point, the exchange rate trends shifted in the direction of a stronger yen. Consequently, the problem of our external imbalance has already begun to shrink and thereby to correct itself; nevertheless, because of other factors such as the delay in reducing the U.S. trade deficit, the economic friction between Japan and the United States remains as severe as ever. In the meantime, our country's per capita national income has reached the highest level in the world thanks in part to the strong yen; also, during the current phase of business upturn that began in 1986, the household spending has shown healthy growth with increasing diversity in the consumption activity. All of this seems to indicate a steady gain achieved in the "richness" of the people's living insofar as it is reflected in the economic flow; however, as evident in the long working hours, the low housing standards, and the high cost of living, one can hardly say in reference to the present conditions of our country that the fruit of economic growth thus far has necessarily been fully taken advantage of to enrich and improve our national life. To solve these problems so that there will indeed be the kind of national life in which people can actually taste the sense of prosperity—this, then, should be an important task of the first priority that faces us in the 1990's.

One particular problem, which needs to be redressed in the interest of further qualitative improvement of our national life, is that of price differentials between domestic and foreign markets. The "Price Report" of last fall made public the analytical results of the realities of this problem. For example, on the basis of the exchange rates ($1=128 yen; DM1=73 yen) at the time the survey was made (November 1988), the price levels in New York and Hamburg were 72 percent and 68 percent, respectively, of the level in Tokyo; in other words, Tokyo's price level was roughly 1.4 times higher than the levels in those two cities. Also, as the reasons for such price differentials between domestic and foreign markets, the report cited not only the rapidly rising value of the yen and the upward surge in the per capita national income but also the presence of various official regulations and the factors impeding competition in the distribution phase. If such price differentials are to be reduced, it will be important in the days ahead to adopt aggressive measures designed to promote the importation of manufactured goods, to promote competition by easing official regulations, to rationalize the distribution system, to improve productivity in the agricultural and other sectors, and to provide information to the consumer.

Another task facing the 1990's is to ensure a firm foundation for growth into the 21st century. In the 21st century, our country will face an aging society the likes of which we have never had before. Hence, the 1990's are the period in which important systemic measures must be undertaken in preparation for the aging society yet to come. It is important to go forth with steady preparations in various economic and social fronts—preparations that should include measures to deal with the problems of social security and employment and to improve infrastructures.

And by way of the third task facing the 1990's, one can cite the need for Japan to make contributions to the world. It is fair to say that only under a healthy global environment with sustained, stable growth of the world economies can our own economy possibly grow. Given the fact that our country has already become the world's foremost net creditor nation, it is essential that we continue to make contributions to the world in wide-ranging fields such as economies, science and technology, and culture.

As for the basic approach to solving these problems cited above, it is imperative that we be guided by the spirit of the economic plan entitled "Japan That Coexists With the World," go forward with bold readjustments of our economic structure including revisions of the existing

systems and practices, and strive toward transition to and permanent establishment of a domestic demand-oriented economic structure.

That our economy is currently in a sustained expansionary cycle is, it can be said, providing a favorable circumstance for us to tackle with medium- and long-term problems. Now is the right time, I believe, for us not only to ensure sustained growth of domestic demand-oriented economy but also to go forward with bold steps, including taking a new look at the existing systems and practices, toward structural reforms in order to resolve the various problems cited above. This process will of course entail pains and burdens, but only through such efforts will it be possible for us to build a nation truly prosperous which the generations of Japanese who live in the 21st century can rightly be proud of.

* Forseeing Problems

90240119B Tokyo ECONOMY SOCIETY POLICY in Japanese Feb 90 pp 14-18

[Article by Naohiro Yashiro, economist with the OECD secretariat]

[Text] 1. Preface

With the worldwide boom since the turn of the second half of the 1980's still continuing, an optimistic outlook has gained ground for the 1990's as well. In terms of international circumstances, the invigoration of European economies moving toward integration in 1992, the U.S. economy's managing somehow or other to sustain its prolonged boom conditions, and the high rate of growth being achieved by Asian economies all constitute a favorable wind for Japan's economy. Although OPEC's behavior still is a matter of uncertainty, the risk of Japan's falling prey to an OPEC surprise, a la the oil shocks of the past, is no longer great thanks in part to our lessened dependence on petroleum. And then there is the move toward liberalization by Eastern Europe and the two major communist powers—a development which, even though further ups and downs are to be expected in the days ahead, is unquestionally a bright topic from the standpoint of further development of the world economies. Under these circumstances, I believe that the task of primary importance for Japan in economic and social terms during the last decade before going into the 21st century is going to be the formulation of policies congruent to the three basic trends or the "Three K's," which are "Kokusaika" [internationalization], "Kisei Kanwa" [easing of regulatory controls], and "Koreika" [aging].

2. Advancing Internationalization

The rise of Japan's relative importance in the world economy has been very notable during the past 20 years; this is evident in the fact that in 1988 Japan accounted for 25 percent of the combined GNP, 28 percent of the total plant and equipment investment, and 16 percent of the total exports of manufactured goods recorded by all OECD member-nations. But in contrast to the surge in its shares of the production aspected as noted above, on the consumption side Japan's shares were limited to 20 percent of the total personal consumptions and 6 percent of the total imports of manufactured goods. These statistics clearly reflect Japan's image as a production power. When the interdependence within the world economies is growing steadily, the existence of such differentials between the production and consumption sides of Japan's economy in terms of their relative degrees of internationalization is in itself a major reason for Japan's having economic frictions with foreign countries. Meanwhile, the liberalization of Japan's international financial transactions progressed rapidly during the first half of the 1980's; as a result, the international migration of capital, which had previously played only an incidental role of financing trade dealings, has since expanded into autonomous transactions triggered by the differentials in investment earnings between the domestic and overseas markets, making it a factor no longer incidental to, but rather having significant impact on, trade dealings through fluctuations of exchange rates. Migration of labor force is another example of changes: there has been a rapid increase in the number of foreign workers coming into Japan in various forms—some legal, some illegal. Two things have contributed to this phenomenon: one is the expanding human interchanges generated by Japanese firms actively making inroads into foreign markets and by growing tourism; another is the supply-and-demand principle in motion fueled by sharply widening wage differentials between Japanese and foreign labor markets.

With the progress of such multifaceted internationalization of economic activities, the differences in internal systems and trade practices of one country to another have become the focal point of ever growing attentions as being an important factor impeding trade and financial transactions between different nations. For instance, a Japanese manufacturing firm sets off a fierce price war in a foreign country by taking advantage of the free market system there; in Japan, however, the same firm keeps itself free of price competition by various means such as systematization of distribution structures. This kind of asymmetric pattern of operations becomes a major paradox in the eyes of a third party. Generally, this asymmetry is explained often by the use of a popular theory about the difference in consumer behaviors between Japanese and foreign markets—to wit, Japanese consumers value quality while foreign consumers attach greater importance to prices. But given the absence of evidence that bargain sales are always unpopular in Japan, this "theory of the uniqueness of the Japanese consumer" is nothing more than an unproven hypothesis conveniently serving the interests of the Japanese manufacturers.

Rather, what has tacitly supported this kind of asymmetric practice may well be another popular theory deeply embedded in Japan's overall industrial policies (concerning not only the manufacturing industry but

also such other sectors as banking, transportation, communications, construction, and distribution)—the theory that domestic price competition tends to lead to undesirable "undue competition" and therefore should be suppressed as much as possible. In the background of this theory lies a tacit understanding, rooted in the traditional concept that "big businesses are evil by nature," that it is the administration's responsibility to protect small and medium enterprises from being weeded out as a result of price competition, and that it cannot be helped even if the consumers must bear the cost of such protection. The problem with this view is that it ignores the fact that those who in the end benefit most from such a competition-restrictive policy are the big businesses who can produce at a lower cost than smaller businesses can. This price-competition suppression policy has brought about an opaque anti-price-competition mechanism within the domestic market, which in turn has proved to be a major barrier impeding the entry into the domestic market by newcomers, be they Japanese or foreign concerns.

Moreover, it is in the very behavioral pattern of Japanese corporations that one can also detect a strong design to replace price competition in the marketplace with a different form of competition. Manifestations of this design take various forms such as the practice of long-term employment, the circumscription applied to selecting clientele, and the interlocking stockholdings among corporations. Unquestionably such a system, the sum-total of these practices, has long-term salutary aspects in that it contributes to the enhancement of workers' education and training, to the qualitative improvement of the goods and services being transacted, and to the stability of corporate operations. On the other hand, also undeniable about such a behavioral pattern are the opaqueness of its decision-making process and the resulting unfairness.

First of all, the unfairness is the story of the labor market in terms of working condition differentials between two categories of workers: one category is protected under the system based on lifetime employment and promotion by seniority—workers in this category enjoy high productivity and equal opportunities at the place of their employment; the other category is excluded from this system—workers in this category enjoy none of the benefits accorded to those in the first category. For example, the differential in average wages between the workers at a relatively small business (with 100 or fewer employees) and the workers at a large business (with 1,000 or more employees) grows wider as the workers grow older; at the peak earning ages of 55-59, the former group earns 55 percent of what the latter group earns. When the difference in average number of working hours between a smaller business and a large business is taken into account, the gap in hourly wage terms grows even wider. Meanwhile, the average wage of the female worker as compared with that of the male worker is extremely low in Japan—50 percent in contrast to 70 percent among advanced nations and 90 percent among the countries of Northern Europe. The main cause of this is the differential application of the promotion-by-seniority system to the male and female workers.

Secondly, that Japanese companies, unlike their U.S. counterparts who are busy pursuing short-term profits, are handling themselves with their eyes on long-term growth is to be welcome in principle; on the other hand, they are almost entirely free of scrutiny by shareholders, and the distribution of their operational profit is often a subject of arbitrary decisions by the management. Also when these companies select their parts suppliers or other business clients, their decisions are greatly influenced by factors other than such logical ones as quality of the products and timeliness of the deliveries—factors such as the friendliness of reception and the degree of solicitousness on the part of the would-be clients toward certain company officials on ceremonial occasions of personal importance to them. In this respect, i.e., in terms of the value being attached to such incidental factors, Japan probably is peerless at least among the advanced nations of the world.

Thirdly, in Japan, where shareholders have little real influence over the running of corporations and where interlocking shareholding between different corporations is a common practice, corporate takeovers are extremely difficult; in this sense, Japan is in a striking contrast to the United States where corporate takeovers are common occurrences. The question of to whom does a corporation belong—Does it belong to the shareholders or to the management/employees?—has become a serious issue not only between Japan and the United States but also between the United Kingdom and the rest of European countries. As a matter of fact, the United Kingdom, where as in the United States the rights of shareholders are taken seriously, accounts for more than 80 percent of all corporate takeovers taking place in Europe, setting itself far apart in this regard from continental European nations such as West Germany and France, each of which accounts for less than 5 percent of the takeovers. (Footnote 1) (FINANCIAL TIMES 28 November 1989) Is it to be desired that a corporation, like the goods and services it produces, be sold and bought freely on the market, or should it be traded under certain restrictions as in the case of labor? This is a question which should be answered on the basis of the value judgment of each society; a compromise between the two schools is not necessarily an easy task. Nevertheless, under the reality of the advancing process of internationalization, some systemic means of conciliation over this question has become essential.

Under these circumstances, the idiosyncratic aspects—so viewed in the international context—of Japan's traditional corporate behavior and trade practices are expected to become the targets of increasingly severe criticism from both domestic and external quarters during the 1990's. It goes without saying that any improvement of domestic structured problems should preferably be done at the country's own initiative, but the reality of the balance of domestic political force is

such that there is in every country a tendency to stick with the status quo in which administrative priorities are usually accorded to the producers' side, which makes it efficacious to use some form of "external pressure" as the catalyst of a drive toward reforming the domestic economic structure—this, in fact, is one of the latent objectives of the EC's move toward economic integration. Viewed in this context, one can say that the latest round of Japan-U. S. talks on structural issues, which started last September, was an inevitable step in the tacit process toward further integration of Japanese and U.S. economies. Thus, it will be necessary to deal with the current economic friction between the two countries not as a transitory issue, the likes of which have come and gone in the past, but as a medium-term issue that will be with us through the 1990's. On the other hand, considering the fact that the United States, too, like Japan, has an economic structure that is rather unique among the advanced nations as a whole, such a comparative examination of structural issues would perhaps be more meaningful if it were done in a multinational forum including European nations that are rich in precedents of various kinds in this area. (Footnote 2) (My own article "Japan's Structural Problem as Seen From Europe," KEIZAI SEMINAR, November 1989 issue)

3. Easing of Regulations Versus Competition Policies

The progress of the internationalization trend coupled with a move toward achieving uniformity in the internal systems of individual countries inevitably leads to the liberalization of various regulatory controls in each country including the privatization of public enterprises. Especially in financial markets, where money moves from one country to another in search of a freer market, those financial markets encumbered with stricter regulations are bound to wither in relative terms. As a matter of fact, Japanese corporations in need of raising capital have a tendency to stay clear of the domestic financial market, where regulatory constraints abound, in preference of floating bonds at the Euromarkets—a tendency prompted by the differences in competitive conditions arising from the differences in various regulatory controls governing our and their financial markets. Such competitive pressure generated by the "escape" mechanism of capital from the domestic financial market can become a force strong enough to compel the domestic financial market to ease its regulatory controls in the midst of spectacular progress in the internationalization trend. In the goods and services market, where liquidity is lower than in the financial market, since the steep rise in value of the yen during the period 1985 through 1986, imports rather than exports have become a money-making business and, as a result, the importation of manufactured goods has been rising sharply on a continuing basis. Even in the area of foodstuffs, which are subject to especially strict import controls, all kinds of substitute items, produced through processing and other means, are being imported, thereby, gradually turning the regulations into a mere shell. But in the areas of construction and transportation-related services, which are difficult to be imported, Japan's competition-restrictive disposition remains as pronounced as ever; typifying this is the practice of "dango" [prebidding conferences at which would-be bidders decide how they will apportion the available work]. In these areas, too, the process of easing the regulations has made some progress; however, in many instances, the easing is done under the policy of "prohibition as a rule; nonrestriction for exceptions only"—what the easing does is simply adding more lists of items to be treated as exceptions to the rule. As a result, ironically the process of easing regulatory controls actually is increasing the number of regulations. Unless the policy is dramatically changed in the direction of "nonrestriction as a rule; prohibition for exceptions only," the process of easing regulatory controls will always lag behind the economic realities that are changing rapidly.

But, then, the question is, "Should consumer protection as a matter of general principle be sought through government regulations, or should it be left up to self-help efforts through litigation?" Both options have some merits and some demerits. The first option often leads to bureaucratic controls; the second option could incur high litigation cost that would make the protection of rights more in name than in substance. The second option may also lead to too many suits and countersuits, and these litigation battles are liable to become an additional burden to the society in terms of cost. Which option to choose is a question that depends in part on the traditional sense of value regarding the role of government; ultimately, however, given the current international trend toward uniformity in domestic systems of individual countries, we have little choice but to move in the direction of regulatory relaxation. It is only natural that this trend toward regulatory relaxation has become notable first in the financial and aviation sectors, both of which deal in services that are of common interest to the international community. But in the 1990's the same trend is bound to extend gradually to such other service sectors as communications, construction, and distribution.

Regulatory relaxation increases the need for a stronger policy to promote competition. Privatization of public enterprises, unless accompanied by steps to invigorate competitive conditions, will only amount to replacing a public monopoly with a private monopoly. To avoid this, it will be necessary not only to privatize but also to break up certain public corporations as was done in the case of "JR" [Japan National Railways], and to improve the conditions so as to facilitate the entry into the field by new companies. In this connection, often in the name of "supply and demand coordination," concerned government agencies tend to control the investment activity by the existing corporation and the entry into the field by new companies. Such a move only impedes price competition between companies and becomes a major contributing factor to the disruption of investment activities. Looking back at the development pattern of Japan's economy in the past, there is no doubt that whose

judgment—the private sector's or the government's—has turned out to be correct in making supply-and-demand projections for every segment of the industrial sector, and the same will hold true in the future as well. Also in this vein, when a shortage of public facilities such as airports, necessitates an adjustment of demands, it is preferable to handle the matter through something close to the free market principle by, for instance, having the user fees decided through open bidding rather than letting the government allocate the usage based invariably on some opaque criteria.

On the other hand, regulatory relaxation does not necessarily mean a lopsided reduction of government activity. As a result of the private sector's having taken over the public production activity of certain public enterprises, there has been an increase in the demand for basic public goods and services that are essential to the smooth workings of the market economy. Meanwhile, as a result of the government's personnel reduction plans implemented over the past 10 years, Japan's ratio of its total civil service personnel in percent of the total population has shrunk to the level that is 50 percent and 35 percent of the ratios in the United States and France, respectively. Because personnel reductions have covered all government agencies uniformly, and therefore have affected the public services as well, a major difficulty has arisen in terms of ensuring the efficiency and fairness of economic and social activities. Good examples of public services so affected are police, firefighting, courts, the protection and review of patent rights, and taxation, all of which cannot be replaced by the private sector. To what extent can the government's role be shifted from the administrative function of regulating the private-sector activities to one of providing complementary services to the private sector—this will be a major issue facing Japan in the 1990's.

4. Advent of Aging Society

To the Japanese society, where one's occupation, wage, and social status are closely linked to one's age, the aging of its population at a rate unprecedented among other advanced nations means nothing short of an "invisible revolution" in the making. The percentage of the Japanese population older than 50—the aging index—will steadily rise to 15 percent by the year 2000 from 9 percent in 1980. Perhaps more important is that during the same period the percentage of labor population younger than 25 is expected to decline from 13 percent to 10 percent. (Footnote 3) (OECD, Aging Population, The Social Policy Implications, 1988) The impact of such aging trends will first appear in the 1990's in the form of a bulging layer of middle-aged and even older workers in the labor market; then, as we enter the 21st century, the impact is expected to grow ever stronger as the number of pensioners increases, imposing an expanding fiscal burden on the nation—a burden that will affect the entire spectrum of economic activities.

A substantial change in the age structure of the labor force will inevitably force reforms of the traditional, seniority-based job and wage systems that have been centered around big businesses and male workers. In other words, when aged workers were still relatively few in numbers, the high wages paid to them were a reward for their valuable job experiences; however, when this premise gradually loses ground, the uniform promotion system based on seniority is bound to reach a dead end. At the same time, there is a heightened sense of need for reforming the traditional way of getting the job done, a system geared to young workers putting in long hours, into a system that can operate effectively with shorter working hours.

The atrophy of the seniority system resulting from the aging work force will manifest itself in the following forms: First, as a percentage of the total work force, those workers meriting the application of the seniority system will decline. This is already reflected in the trend among businesses trying to minimize the hiring of permanent employees and to rely increasingly on part-time workers or workers temporarily detailed to handle a specific job. Second, the rise in the entry-level wage, necessitated by the tight supply-and-demand situation relative to young workers, will narrow wage differentials between different age groups among average workers and, at the same time, will taper off the rate of wage increases for the middle-aged and older workers. Third, the wage differential will widen among the middle-aged and older workers whose supply will increase in relative terms. This trend will develop in conjunction with two interrelated factors: one is the increasing difficulty for business firms to maintain the traditional pattern of personnel management, under which the majority of full-time employees would strive toward managerial positions by going through a variety of jobs to gain experiences as well as expertise; the other is the inevitable and increasing division between the all-around jobs for the devoted few and the specialized jobs with limited responsibility for the majority of employees.

Such a diminishing role, as noted above, of the seniority system in job allocations and wage determinations will contribute greatly toward redressing the wage differential between the male and the female workers—a differential that is considerable by international standards. As a result, I believe it will have the salutary effect of promoting an increase in the percentage of female workers in the labor force. In today's Japanese labor market, a more effective utilization of married women, whose employment ratio is relatively low in comparison with other advanced nations, is needed from the standpoint, among other things, of reducing the burden of the society as a whole in terms of supporting retired senior citizens. Meanwhile, with the rising demand for substitute labor to take up the slack caused by the increasing shortage of young male workers, the progress of the trend toward job specialization within companies is on balance a favorable condition especially for married women who are often compelled to break off their employment in the middle of acquiring skills at a given company for the reasons of child raising or relocation of family due to job transfer involving the head of the household. In this sense, it can be said that the advent of aging society will

have a bearing on improving the role of female workers in the labor market as it has done in the countries of northern Europe.

Reforming the pension system in conjunction with aging society is a major task facing the 1990's. To preserve the liquidity of the pension system in the face of the rising average life expectancy of the people in general, raising the minimum age requirement for the pension eligibility becomes a mathematical inevitability unless either the amount of pension is reduced or the premium for the pension insurance is drastically raised. And yet in reality there is a strong tendency to discuss this problem as part of the package with the question of extending the mandatory retirement age in the labor market. But there are two things which should be taken into account: one is that in truth the number of full-time employees of major corporations who will be affected by the extension of the mandatory retirement age is declining more and more as a percentage of the total work force; the other is that the rate of average wage increases for this same category of workers is much higher as compared with the rest of the work force. If the high wage scale in a major corporation is in line with the productivity of its workers, it is inconceivable that there will be a shortage of demands for such skilled workers. Moreover, to force an automatic extension of retirement age on those older workers who are earning more money than their abilities call for simply by virtue of being employed at a major corporation will, if anything, tend to further widen the earnings gap that already exists among the workers of advanced age—this is another aspect which needs to be weighed. If the extension of the retirement age is to be considered as part of the overall job security issue, it then is no different from general labor issues such as the seniority-based wage system that are subject to labor-management negotiations at each corporation; it is problematic at best as to whether the question ought to be linked directly to reform of the pension system covering the people as a whole. In essence, the advent of aging society and the rising role of women in the labor market will increasingly demand that sufficient attention be paid not just to the picture of traditional confrontation between business and labor but also to the widening differentials among the working people themselves.

5. Conclusion

As has been examined above, the progress of both the internationalization and societal aging trends calls for an improvement in productivity, especially in the service sector, through further liberalization of domestic economic systems. Even accepting the argument that it was good from the standpoint of national welfare that the government had concentrated its efforts to protect weak segments of industry and smaller businesses during the period of high economic growth when the rate of GNP growth had averaged 10 percent per annum, the continuation of such policies since the onset of a stable growth period has been a major factor contributing to the widened productivity gap between the high-productivity sector centered around the export business and the low-productivity sector that owes its existence to regulatory protection. If the high productivity of Japan's manufacturing sector—higher in comparison with Europe and the United States—has been sustained by severe competitive conditions that applied to all manufacturers, big and small, it then follows that there is the need for a policy shift in the direction of having the same kind of competitive conditions applied to nonmanufacturing sectors as well.

Meanwhile, the present situation marked by a serious shortage of labor in all areas of the economy has already made the interindustrial migration of labor relatively easy and is a good opportunity to review those systems and practices that were brought into being during the era when labor was in over supply. A variety of regulations and policies designed to institutionalize the existing systems and practices in the market places—be they goods and services markets or labor markets—will inevitably necessitate painful adjustments by future generations. To date, Japan's labor and social security policies have reflected the traditional sense of value; tacitly they have been designed mainly for those households with working husbands and home-protecting wives. For instance, the spouse-exemption provision of the income tax system and the system of letting a husband's premium cover the public pension for his wife even when the wife is a professional worker in her own right—these systems are based on the premise that treats working wives and unmarried persons as exceptions even though they, too, ultimately bear part of the cost for maintaining such systems. But considering the rising rate of people who stay single or get divorced and given the increasing number of working women, the social systems based on such traditional ways of viewing values will need to be reviewed. The last decade of the 20th century is the last golden age for Japan before it enters the period of wrenching pain under the burden of an aging society; it is, therefore, essential for Japan to make the most of this decade through active regulatory relaxation and promotion of competition-oriented policies (all above are strictly my personal views).

* Policy Options

902A0119C Tokyo ECONOMY SOCIETY POLICY in Japanese Feb 90 pp 29-33

[Interviews with Shogo Oikawa, director of Nomura Research Institute; Haruo Kitamura, chairman of the National Life Center; Kazunori Shirai, chairman and president of Mizunotomo Corp; and Shoichi Tanimura, vice president of the Overseas Economic Cooperation Fund by the magazine ECONOMY SOCIETY POLICY; dates and places of interviews not given. All four interviewees had formerly headed the Planning Bureau, Economic Planning Agency. Their views on the theme of "The Decade of 1990's—Japan's Choices" are presented separately, each under its own subheading]

[Text] At different stages of Japan's postwar era, economic planning performed the role of forecasting the socioeconomic conditions ahead and thereby suggesting a framework for the policies which the government

should pursue. In this connection, it seems fair to say that at each stage the economic planners not only were cognizant of the times—that for the long term Japan's economy was in a period of major transition—but also had the critical mind of weighing the question of how Japan should steer itself through this period of transition (see the table). Of course economic planning in Japan is fundamentally different from that in socialist countries: it does not rigidly prescribe the activity of either the government or the private sector. Still, it is important just the same in that it has helped form consensus among the people and has ensured a measure of coherence throughout various policies.

This publication has interviewed four individuals, all of whom formerly served as director of the Planning Bureau, Economic Planning Agency, which has the leading role in the formulation of economic plans; the theme for these interviews was "The Decade of 1990's—Japan's Choices."

What kind of a decade will the 1990's turn out to be for Japan's economy? What are the policy issues which Japan must strive to resolve for the long term? And what kind of a role should economic planning seek to fulfill in the coming decade? It is on these questions that we sought uninhibited views of the interviewees.

Table (for background use): Economic Plans in Recent Past

Name of Plan	Economic and Social Basic Plan: To Build Vigorous Welfare Society	Economic Plan for First Half of the Showa 50's [1975-1984]: Aiming for Stable Society	New Economic and Social 7-Year Plan	Economic and Social Outlook and Guideline for the 1980's	The Japan That Will Coexist With the World: Economic Management 5-Year Plan
When formulated	February 1973	May 1976	August 1979	August 1983	May 1988
Cabinet Responsible	Tanaka	Miki	Ohira	Nakasone	Takeshita
Period Covered (in fiscal year)	1973-1977 (5 years)	1976-1980 (5 years)	1979-1985 (7 years)	1983-1990 (8 years)	1988-1992 (5 years)
Objectives of Plan	To enrich the people's well-being and, at the same time, to promote international cooperation	To realize stable growth of our national economy and enrichment of our national life	To switch over to the stable growth track; to achieve qualitative enrichment of national life; and to contribute to international economic and social development	To build peaceful and stable international relations; to build vigorous economy and society; and to build peaceful and prosperous national life	To redress the serious external imbalances and to make contributions to the world; to realize national life in which people can actually feel prosperity; and to achieve balanced development of regional economies and societies
Real Growth Rate					
Projected	9.4 percent	G-plus percent	5.7 percent or so	About 4 percent	3 and ¼ percent or so
Achieved	3.5 percent	4.9 percent	4.1 percent	4.4 percent (FY83-FY88)	

Shogo Oikawa: "Further Development Through Structural Adjustments"

Japan as a "World Power" Versus Japan as a "Great Country in Which To Live"

Right now, as is evident in such developments as the crumbling of the Cold War framework, the EC's move toward integration, and the coming to the fore of the Asian economic bloc, the world economy is in a period of structural transition. In the middle of all this, when one thinks of the prospects for Japan's economy in the 1990's, two key phrases are likely to cross his mind.

One has to do with Japan's course as a "world power." A broad view of the composition of the world economy shows that North America, Europe, and the western Pacific zone are the three regions, each of which accounts for one-fourth of the global GNP. In the past all Japan needed to do was to tee the U.S. line; now, however, given Japan's increased share of the world economy, logically Japan will be expected to assume a different posture whereby it will not only express independent views concerning the problems inherent in the world economy but also make active contributions to resolving such problems.

Another has to do with Japan's movement toward becoming a "great country in which to live." It has become increasingly necessary to tie the fruits of economic growth to the qualitative improvement of national life. By doing so Japan is likely to earn the respect of international community—respect worthy of a nation being called a "world power."

Thus far, Japan's economic policy has emphasized improving productivity more than anything else; in this respect, the policy has had its share of success. On the

other hand, under this policy, "prosperity" has not necessarily become something which the people can actually feel for themselves, and excessive growth in productivity has led to external imbalances. This raises the question: Would it not make more sense that from now on Japan should, by improving the quality of national life, try to raise the consumer demand up to a level equal to the level of productivity? Hence, it seems even reasonable to define the decade of 1990's as a period of transition for Japan from the production-oriented society to a consumption-oriented society.

These two objectives as noted above are by nature achievable simultaneously through structural adjustments of Japan's economy. But it is also true that, if such structural adjustments are to be implemented, accurate political judgments become indispensable. There is a strong possibility that during the first half of the 1990's, when unstable political conditions are expected to prevail, frictions and confusions will intensify over the structural adjustment efforts.

Structural Adjustment Must Be for the Improvement of National Life

To go forth with structural adjustments, however, it is necessary to pay attention to the following points:

The first point is that any structural adjustment will have to be intended solely for the improvement of national life—that it must not be a means to redress Japan's external imbalances. Redressing the imbalances requires policy measures on a macro-scale such as reducing the budget deficit and correcting the propensity for excessive consumption on the part of the United States—a fact which, I believe, Japan should make clear to the U.S. side. This is a point which has been made clear in the chain of thought process that began in the "Maekawa Report" (April 1986) and evolved into the "New Maekawa Report" (May 1987) and then to the "Economic Management 5-Year Plan" (May 1988).

The second point is that such structured adjustments should be viewed as a process that will give Japan's economy a chance for making even greater development. Certainly there are some sectors that require special policy considerations during the structural adjustment phase. Nevertheless, regulatory relaxation and vitalization of the market functions will have the benefits of making the economy as a whole more efficient and of providing the private sector with broader entrepreneurial opportunities.

Well-Defined Vision Called For

Considering that Japan's active voice in, and contributions to the world economy are being sought, and that domestically structural adjustments could cause confusions and frictions, for its economic planning Japan ought to have well-defined ideas and arguments that are good enough to produce a consensus among the Japanese people and easy enough to understand for the people of the world.

In this connection, it will also be necessary for those responsible for the economic planning first to take a long-range view of our economy and society using multiple scenarios premised on several different policies, and then to spell out availaole options, in terms of policy direction, for the people to choose.

Up to now it has been very difficult to undertake such a program because the government has been under the constraints of having to give the first and foremost priority to the work of restoring the nation's fiscai soundness. But such constraints are not there any more; therefore, it can be said that it is now possible for the government to present objective views to the people and for the people to use such views to make their own choice.

Haruo Kitamura: "A Decade To Prepare for the 21st Century"

Two "Population" Issues

The 1990's, the last 10 years of the 20th century, can also be termed as the 10 years in which to prepare for the 21st century. Depending on our policies during these 10 years, the 21st century could be either a bright future or a dark future for as.

When the "Economic and Social Basic Plan" (February 1973) and the "New Economic and Social 7-Year Plan" (August 1979) were formulated—I had a personal hand in the formulation of those plans, expansionary trends marked the basic tone of the economy both at home and abroad, and all that was required was to plan our economic management on that basis. Moreover, Japan's role was not very significant in those days. But the 1990's will not only be an era marked by a very high level of uncertainty both at home and abroad but also be a period of an expanded role for Japan. There is a strong possibility, therefore, that what policies Japan pursues during the coming decade will make a big difference in the shaping of economic and social conditions worldwide. Hence, for Japan to plan its economic management based on long-term perspectives will become a matter of increasing importance.

Under these circumstances, there are two "population" problems among the issues that warrant our most serious attention. One is the problem attendant to the explosive increase in the world population. The world population, numbering only 1.6 billion in the year 1900, has grown to 4.6 billion during the past century with the developing countries contributing most of the increase, and is expected to reach 6.2 billion by the year 2000. Consequently, the global environmental issue and the question of world economy, viewed in conjunction with the world population, will become significantly different in substance from what they have been in the past. Japan, whose economy is destined to become the largest in scope in the world, will be expected to come up with aggressive measures toward the resolution of these global problems.

The other is the question of how Japan can resolve the problem of aging related to its own "population." Although the technological revolution is likely to continue on into the future, it is difficult to imagine that we will be able to maintain economic growth at any significant level when the impact of aging population finally hits us in full force. What is important, therefore, is to build economic and social structures with which Japan can make contributions to the development of world economy and, at the same time, can fully cope with the advancing trends of aging on the domestic scene.

Improvement of Infrastructure Needed Urgently

For that reason, the first thing the government will be called upon to do in the next 10 years will be to update and improve the existing infrastructures. Unless such infrastructure as roads and the sewer system that are essential to people's living are improved and put in good order during the 1990's, the 21st century will present an extremely grave situation as a result of the two "population" problems.

There is also a need to change the traditional way of looking at the question of social security. Signs are already there that the pension system as it exists today is headed for bankruptcy. What is needed in the days head will be, first of all, to come up with a social security system that is based on self-help efforts of individuals. For the effective operation of such a system in its totality, too, it is necessary to ensure sufficient availability of the infrastructural facilities that are directly related to people's living.

When preparing economic plans, in addition to dealing with such macro-figures as the rate of economic growth, the rate of price increases, the unemployment ratio, and the current account balance, at the minimum, numerical outlines need to be spelled out for fiscal and infrastructural investments and social security measures.

Policy Review Needed for Formation of Correct Vision

The "National Life White Paper," made public last year, called for aggressive measures to expand the employment of women and senior citizens in order to reduce the burdens of overworking middle-aged men. This is the kind of ideas that are undoubtedly very important in contemplating what the future state of our economic society ought to be.

But in examining the question of this kind, the most difficult thing is to gauge the people's "perception." Take the word "yutori" [elbowroom], for example: "yutori" means different things to different people; government cannot establish a uniform definition of the word "yutori" and take it from there. In other words, when the government talks about striving for the realization of national life with "yutori," what it should have is a broader interdisciplinary perspective that goes beyond the stereotypical approach derived from economics.

In terms of practical matters, if for instance the idea of expanding the employment of women and senior citizens is to be made good, there are many problems yet to be resolved—problems such as reviewing the traditional labor-management practices and wage structures and the question of work-hour distribution. Thus, to hammer out a new vision of national life for the decade of 1990's it will be necessary to study the whole question from these new angles as noted above.

Kazunori Shirai: "Sense of International Responsibility Needed for Economic Planning"

Three Unstable Factors

It was exactly 10 years ago that I, as director of the Planning Bureau, was involved in the work of peering into Japan's economic outlook for the 1980's. At that time (when the "New Economic and Social 7-Year Plan" was being reviewed), fiscal reconstruction and energy constraint were the major policy issues of a long-term nature. Compared to the conditions which existed then, Japan's economy in the 1990's will, I believe, have to contend with the following three unstable factors:

The first factor is the dramatic change in the international situation. The demise of the Cold War structure and the direct catalyst for it, the changes in the situation of Eastern Europe, are likely to have significant impact on Japan's economy—an indisputable possibility. In addition, there is no telling what will come of Japanese-U.S. economic friction, the EC's move toward integration, and the economic trend in China.

The second factor is the political instability as evident in the reversal of relative positions between the ruling party and the opposition in the upper house. This, I believe, will cause delays in the decision-making process involving policy issues that are vital to Japan's economy and national life, making it difficult to deal with economic and social changes with flexible policy responses.

The third factor is the advent of an aging society. The relative decline in the number of young workers within the labor force and the growing burden of social security will probably lead to a decline in the nation's economic vitality.

A Sense of International Responsibility Called for in Economic Planning

In the 1990's, when there will be present these unstable factors, the role of economic planning will become extremely important.

Speaking of the economic planning for the 1990's, I dare say that what is called for is "an economic plan worthy of the name" a la the "National Income Doubling Plan" (of December 1960). What I am saying is that the plan should have a policy doctrine clearly enunciated in it so

that the people can see clearly what to expect in the years ahead. Of course any economic planning in the free society must be treated as a guideline in character; nevertheless, the plan should, at the minimum, be so constructed as to clearly preserve the integrity of policies.

Moreover, unlike the days of the "Income Doubling Plan," when Japan's per capita national income was less than $500 and Japan needed to treat the world's economic trend merely as a given condition, the economic planning now requires clear enunciation of Japan's responsibility toward the world economy. This means that we need to be always conscious of our external responsibilities even when determining what policy statements and numerical targets we should include in our economic plans; also, it is essential to have a consensus of the people regarding our external responsibilities—that they must be fulfilled even if fulfilling them may prove to be painful at times. For these reasons, the work of formulating economic plans will, if anything, become even more difficult from here on than it has been in the past.

Twin Problems

Meanwhile, the decade of 1990's is fraught with serious problems from the standpoint of national land policies and urban planning as well.

One such problem is the question of how to redress the unipolar concentration of people and economic activities into the Tokyo area or, to put it the other way, how to promote regional dispersion of people and economic activities. Regional dispersion has been the basis for our national land development policies ever since the days of the old "National General Development Plan." In reality, however, although there was a temporary trend toward permanent settlement in provincial areas by people during the period 1979 through 1980, with the progress of the information oriented society and the internationalization of financial activities recently there has been a sharp acceleration of concentration into the Tokyo area. If this situation continues, serious problems are likely to develop especially with respect to people's livelihood, industrial waste, and water resources; even so, it will not be so easy to redress this problem of concentration in Tokyo by means of policy measures.

Nevertheless, the possibility of autonomous development has been growing for a zone with a radius of 300 kilometers around Tokyo, an area subject to a great deal of influence from Tokyo. Also, local hub-cities such as Sapporo, Hiroshima, and Fukuoka can be expected to serve as the neuclei, each of which will eventually lead to the development of a regional economic zone.

Another problem has to do with land prices; redressing this problem is expected to become a major policy issue. Borrowing using the increased value of the land as collateral and using the money for investment undeniably has a positive effect on Japan's economy; nevertheless, the problem of asset differentials, especially those having to do with land ownership, will have to be redressed as a matter of policy by such means as land-price control measures.

Furthermore, given the extremely high level of the housing prices in relation to the income levels of the buyers, increasing the supply of land for housing by converting farm land into housing lots will become a matter of inescapable necessity. Thus, taking some radical reform measures, such as taxing farm land on a par with housing lots in major urban areas, should be a subject of ongoing study in conjunction with urban planning.

Shoichi Tanimura: "Policy Responses to Tumultuous Tide of Internationalization"

Tumultuous Tide of "Internationalization"

When I was director of the Planning Bureau, I had a "long-term outlook committee" established with the task of assessing Japan's long-range outlook toward the 21st century, an undertaking which I wanted done before proceeding with the formulation of the "Economic and Social Outlook and Guideline for the 1980's" (August 1983). The results of that undertaking were put together in a voluminous report titled "Japan in the Year 2000," which contained three key words: "internationalization," "aging," and "maturing."

Viewed in the long-term perspective, these three changes obviously are basic trends that are ever present and immutable. Nevertheless, of them, the most difficult to project at the present time is the "internationalization" trend. The situation in Eastern Europe in particular, and international relations in general, are undergoing tumultuous changes. The Japanese-U.S. economic relationship is fluid as well. These developments in the world situation will be the factors that will have a controlling influence upon Japan's economy in the 1990's.

With that in mind, if one looks back at Japan's history through the eras of Meiji, Taisho, and Showa, it is evident that those periods when Japan maintained closer, friendlier relations with the United States and Western Europe coincided with the periods of greater growth for Japan's economy and richer lives for its people. Conversely the periods devoid of such good relations were the times of extreme misery for Japan. Hence, I believe that it would be to the best interest of the nation for Japan to maintain friendly relations with the countries of the West.

Japan's Economic Cooperation Becoming Increasingly Important

Meanwhile, in the area of economic cooperation, there will be a growing demand for Japan's active contributions in the interest of the development of the world economy. Some are critical of Japan's economic aid as possibly being used as another means to sell more Japanese goods, but more recently the ratio of Japan's untied aid has become the highest in the world and

helping the developing countries to develop themselves has become the goal of Japanese economic cooperation.

In my conversations with people of the developing countries in Africa and other regions, I find many who give high marks to Japan's economic cooperation, which they say is free of political designs and contributes directly to the economic independence of their countries. To put it another way, this is all the more reason why they expect so much of Japanese aid.

As we enter the 1990's, however, in the area of economic cooperation, too, as in other areas, the question of how our actions relate to the global environmental problems will become a serious issue. There are two aspects to this issue: one is that the aid Japan provides must at the minimum meet the environmental standards of the recipient country. The other is that Japan must give thought to the need of providing such equipment and facilities that will help the recipient country improve its environment.

In the meantime, the need to provide aid to the countries of Eastern Europe is another matter to which Japan's active contributions are being sought. A decision has been made to earmark $150 million out of the Overseas Economic Cooperation Fund for Japan's Aid to Eastern Europe, but further efforts of this nature need to be continued in the interest of the stability of the world economy as well.

As noted above, I believe the importance of Japan's economic cooperation will continue to grow in the 1990's; given the fact that tax money collected from the people must finance economic aid to foreign countries, the government will have to devise effective aid programs that can gain the understanding and support of the Japanese people.

Accurate Grasp of the "Internationalization" Trends Needed

In undertaking economic planning, the question of how the "internationalization" trends are being perceived by the planners will become important. As it is so evident in the proceedings of the Japanese-U.S. consultations on economic structural issues, our domestic economic questions and international economic questions are inseparably intertwined. Thus, to make an accurate forecast of the "internationalization" trends and to present a guideline for economic policies congruent to the forecast will be the most important task ahead for the economic planning.

In this connection, one must ask whether the nature of the economic planning itself has changed with the change of the times. In the "Economic and Social Outlook and Guideline for the 1980's" basic figures such as the rate of economic growth, the rate of price increases, and the rate of unemployment are presented but other more detailed figures are not. This was a point of major controversy at the time the plan was being drawn up; nevertheless, I believe it is very difficult to incorporate even detailed figures into an economic plan when the economic and social conditions are undergoing dramatic changes as they are today. I also believe that the target figures included in an economic plan should be viewed not as strict prescriptions for the policy but rather as a pointer for the directional orientation of the policy management.

Be that as it may, in the stage of formulating an economic plan, it is unquestionably essential to the preservation of the plan's coherence that the GNP's contents and other macro-values be projected scrupulously using econometric models.

* Structural Changes

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[Article by Narihiro Kobayashi, deputy director of research, Research Division, Japan Development Bank]

[Text] **1. Preface**

Our country's economy today is caught in the middle of two major currents: one is the onslaught of microelectronics; the other is a move toward service-oriented industries. Since 1985 our industries have been undergoing a structural turnabout to reorient themselves toward domestic demands.

In this article, I shall first attempt to pigeonhole the data concerning the structural changes currently taking place in our industries, then, using the findings from such pigeonholing as a starting point, I shall deal with the question of how will the tides change relative to our country's industrial and employment structures as we head toward the year 2000 and I shall do so in an attempt to ascertain the future shapes of and potential problem areas for our industrial and employment structures.

2. Progress in Shift of Industrial Structure Toward Domestic Demand

The progressive rise in the yen's value triggered by the Plaza Accord of September 1985 has brought about major changes to our country's trading structure, and by extension to our industrial structure, in forms such as the expansion of overseas production by Japanese manufacturers, the stagnation of exports, and a sharp rise in the importation of manufactured goods. As a result of the deterioration in the export environment, those industries with a high degree of dependence on foreign demands have undergone restructuring of one form or another. In the meantime, however, what has become ever more clear is the tendency among Japanese corporations to further build up their technologies through research and development and to maintain and strengthen their international competitiveness by developing new products or by making their old products better in terms of sophistication and equality.

Let us now examine how our country's industrial structures have changed from the standpoint of self-support

ratio to begin with. Figure 1 [not reproduced] is a "skyline graph" for 1988—so-called because the graph's resemblance to an outline of skyscrapers against the background of the twilight sky. In the figure, the axis of abscissas shows the amounts of production (induced output F) by individual industries that are required, directly or indirectly, to satisfy the domestic final demands (consumption plus investment plus inventory). Shown on the axis of ordinates is a 100-percent self-sufficiency line denoting hypothetical situations wherein these amounts of production (F') can be met entirely by domestic production; shown above the 100-percent self-sufficiency line are the ratios of exports-reduced output E' against F', shown below the self-sufficiency line are the ratios of imports-induced negative output M'; the results are the self-supply ratios of individual industries indicated by the height of the shaded portions of individual bars.

In our country, which lacks in natural resources, the self-supply ratios are low for primary products such as mineral fuel and agricultural, forestry, and marine products, for most of which our country relies on imports. This is a fact as true today as it has ever been—it is the basic structure of our country's economy. Looking at the 1988 status of industrial structures, of the manufacturing industries that were undergoing restructuring, nonferrous metal refining industries including aluminum makers, which had been forced to retrench as a result of their diminishing international competitiveness, showed fairly low self-supply ratios but nearly all the others recorded the ratios higher than 100 percent. Manufacturing industries with especially high self-supply ratios were semiconductors/electronics parts (185 percent), office equipment including facsimile/copiers (178 percent), automobiles (177 percent), automobile parts (176 percent), household electric appliances and equipment (155 percent), electrical machinery including heavy electric equipment (139 percent), rubber (135 percent), steel materials (135 percent), precision equipment (130 percent), computers (129 percent), electronics/communications equipment (126 percent), pig iron (128 percent), metal processing equipment including industrial robots (124 percent), and processed nonferrous metal products (123 percent). These industries may be called "external demand-oriented industries" because their dependence on foreign demands is quite high even today. Meanwhile, those industries whose self-supply ratios were roughly around 100 percent included chemicals, metal products, ceramics/stone/clay products, paper/pulp, petroleum/coal products, foodstuff, industrial fiber products, and garments/textiles. In contrast to the external demand-oriented industries cited earlier, these may be called "domestic demand-oriented industries."

Although machine industries are still considered as belonging to the external demand-oriented type, their external demand-dependent disposition has been rectified considerably since the uptown in the yen's value. In Figure 2 [not reproduced], the axis of ordinates is used to indicate the changes (differentials) in self-supply ratios during the 3-year period from 1985 through 1988, and the axis of abscissas is used to indicate the percentages of increases in average yearly output (in 1980 prices) of individual industries. From this figure, it is clear that during the 3-year period all manufacturing industries registered a decline in their self-supply ratios and yet nearly all of them expanded their output. This indicates that a rapid increase in domestic demands has compensated for the decline in foreign demands, enabling these industries to make progress in achieving smooth reorientation of their businesses toward domestic demands.

Turning to the patterns of readjustment, I believe they can be sorted into several categories. The first category consists of such industries as shipbuilding and textiles whose production has diminished and whose self-supply ratios have declined as well; these are the industries that have been exposed to the harsh tide of structural readjustment. The second category is a group of industries that has maintained steady growth averaging a few percentage points yearly and at the same time, has managed to lower their self-supply ratios somewhat; belonging to this group are not only such external demand-oriented industries as metal processing machinery and rubber but also domestic demand-oriented industries such as chemicals, paper/pulp, ceramics/clay/stone products, and foodstuff. The third category consists those of industries that have, as did the industries of the second category, increased production to a degree but whose self-supply ratios have declined drastically. Belonging to this group are such external demand-oriented industries as automobiles, automotive parts, office equipment, household electric appliances and equipment, and steel; these are the industries that have already attained considerable maturity and have also made considerable progress in their overseas production operations. There have been the beneficiaries of the favorable trends in domestic demands; as a result, they have been able to make great strides in their reorientation toward domestic demands without being pressured into making excessive readjustments. Finally, in the fourth category are those industries that have continued to expand their productions at an extremely high rate but whose high self-supply ratios have remained nearly unchanged. Belonging to this category are such external demand-oriented industries as electronic calculators, semiconductors/electronics parts, and electronic/communications equipment—all of which are high-tech industries. Although these are fast-growing industries, the even faster pace of the technological revolutions taking place in their fields is holding them back where overseas production is concerned; as a result, they are lagging behind those industries of the third category in this respect.

3. Plant and Equipment Investment Versus Changing Industrial Structure

The generally smooth progress, as noted above, achieved by industries in their structural reorientation toward domestic demand is indeed attributable to a significant

expansion of domestic demand. If the combination of private consumption and investment in housing, both of which tend to strengthen the trends toward better quality and higher efficiency, is likened to a pillar supporting domestic demand, another pillar doing the same is the vigorous investment in plant and equipment by corporations. Investment in plant and equipment not only means today's demand but also is what determines the supply capacity of tomorrow's; thus, by looking at the current state of investment in plant and equipment one can pretty much tell what shape or form the industrial structure will be in during the next 10 years.

Quantitatively speaking, during these past several years the investment in plant and equipment has progressed at a very high level almost throughout the entire industrial sector. In both 1988 and 1989, the ratio of net investment in plant and equipment in percentage of GNP exceeded 20 percent, which is on a par with the ratio during the high growth period. This has led to a recent concern that the country may be returning to an excessive production capacity and external demand-oriented economic growth. On the other hand, there are some who fear that the expanding overseas production by Japanese firms could, in the long run, result in the hollowing out of the domestic manufacturing industry.

In dealing with these questions, there is a need to scrutinize the contents of the investment currently being made in plant and equipment. The special feature of today's growing investment of this type is that the growth is spreading among different kinds of businesses and that the investment contents are diverse. According to a survey by the Japan Development Bank, the high growth of equipment outlay in the manufacturing industry is supported by the following types of investment activity: investments to solidify a company's foundation from the medium- and long-term perspectives—e.g., investment in new products or to upgrade products and investment in research and development; investment for rationalization and laborsaving purposes through the introduction of OA [office automation] and FA [factory automation] equipment to counter the problem of labor shortage; investment in information-handling capability; and investment in welfare facilities such as dormitories and housing for employees. Also in the manufacturing sector, "capacity reinforcement investment," designed to make up for the deficiency in production capacity, has risen sharply; this applies not only to domestic demand-oriented industries but also to external demand-oriented industries as well. Particularly noteworthy in this connection is that external demand-oriented industries, which were forced to undertake drastic structural adjustment due to the yen's appreciation of the recent past, completed the equipment inventory readjustment during 1986 and the first half of 1987, resumed their growth beginning in the middle of 1987, and, now, with the expansionary trend in business activity, are revising significantly upward the amount of their planned equipment outlay for each period, one after another. Essentially, however, such "capacity reinforcement investments" by external demand-oriented industries seem to have been generated by the chain reactions incidental to the basic features of the equipment outlays as noted earlier.

One example of such chain reactions is as follows: Today, in addition to real estate-related investments such as infrastructural improvement, urban development, and resort development, the deregulation trend has further energized investments in nonmanufacturing sectors like banking, aviation, railroads, distribution, and communications, all of which ultimately lead to demands for capital goods, which in turn lead to further expansion of production and even "capacity reinforcement investments" by manufacturing industries: in short, there has been a growing trend of investment in "service goods" begetting investment in "physical goods."

Another example: Steady growth of investments designed to upgrade the quality and improve the functions of products and, by extension, of investments in research and development aimed for the same objectives from the medium- and long-term perspectives is creating chain-reaction investments among different industries. That the demand for luxury cars is rising rapidly is well known. As a result of this trend, the steel industry, which is proceeding with rationalization efforts with a goal of achieving the crude-steel production capacity of 90 million tons, is aggressively investing to increase the production capacity for cold-rolled galvanized sheet metal with high added-value which is noted for its rust-resisting quality and smoothness. The rising demand for luxury cars also induces the following chain reactions: The use of high-grade resins and multicoat painting on luxury cars will generate for the chemical industry an increased derivative demand; the rubber industry will be called upon to produce flat radial tires; the parts industry will be asked to produce ABS (anti-skid breaking system) and powersteering; the electric machine industry and communications industry will be called upon to produce electronics parts and earphones. The process of upgrading a product often requires entirely new and unique facilities; this is having ripple effects on many different fields, creating new opportunities for investing in plant and equipment.

Yet another example has to do with the expanding investment in such things that will make the business more rational, laborsaving, and information-oriented to counter the worsening problem of labor shortage. With the population aging rapidly and under the expansionary business conditions of late, the shortage of young workers has become a real problem; in addition, the manufacturing industry is having a serious problem of workers with technical skills leaving the industry. The realization of shorter work hours has become a basic demand of society. Under these circumstances, for businesses to ensure maximum profits for the medium and long terms, it is imperative to cut down labor requirements through all-out investments in whatever it takes to make them more rational, laborsaving, and information-oriented. Especially today, when the diversification of

consumer needs is changing the mode of production from "mass production of single product" to "production in small quantities of a variety of products," businesses have no choice but to make up for the loss of the "scale merit" of mass production by resorting to the power of information, machine, and microelectronics.

Also such investments for rationalization and laborsaving purposes will have secondary ripple effects on the production of general machinery (industrial robot, automatic vending machine), electric machines (electronic equipment, communications equipment, OA equipment, communications apparatus, and structures (intelligent buildings, dormitory and company housing); these in turn will induce the production of such industrial products as electric devices (semiconductor electron tube, etc.) and paper/pulp products (papers for PPC [plain paper copier], computer output papers, heat-sensitive papers for facsimile). Thus, rationalization and laborsaving-oriented investments are prompting the reinforcement of production capacities of the machine industry and many other segments of the manufacturing industry. Incidentally, according to a survey by the Japan Development Bank, in 1988 the manufacturing industry's information-related investment-purchases of information equipment plus the investment in the manufacturing facilities for information-related apparatuses—accounted for more than 30 percent of the industry's total investment in plant and equipment, attesting to the extremely strong desire on the part of this industry to invest in ways and means to rationalize itself and to save labor.

As we have examined above, today the manufacturing industry is making considerably more investment than before in the means to reinforce its capacities, but this seems to be a move prompted in the first place by the economic trends toward services, quality products, rationalization, and reduction of labor; to put it another way, it is a move brought about by "structural" factors. In the future, however, given the prospects of shorter working hours and diminishing young workers in the labor force, investments of this nature are likely to increase even more, and so is the trend toward higher quality products. Consequently, a steady chain of such equipment investments will create new demands, and any surplus supply capacity generated by the steady investment in plant and equipment is likely to be absorbed by domestic demand. As for the concern that overseas production might lead to the hollowing out of domestic industries, it should be pointed out that Japanese firms are making their products in the United States and in Europe in order to avoid trade frictions—they set up their plants in those countries, where their products are in demand by consumers, as an alternative to their exporting the same products from Japan. What they are doing serves to constrict the self-supply ratios of machine industries, which look like soaring towers in the "skyline graph" mentioned earlier, to the vicinity of the 100-percent line. Even in the cases involving the countries of Asian NIES [newly industrializing economic societies], where Japanese firms are engaged in production activity often motivated by cost-related factors, one can see developing trends toward a form of "segregation of niche"—too wit, Japanese firms are making commonplace items abroad but are sticking with domestic production of "hit items" or value-added products because, for one thing, parts for such items are hard to come by in the countries of Asian NIES. One area where such a trend is occurring is the audio-related field in which progress is continuing in the development of "AV" [audiovisual] products such as big-screen television and video equipment. When it comes to developing a high-grade new product for which functional capability matters more than price, it is more efficient to do it in Japan with its huge domestic market of more than 100 million people; moreover, parts for such an item are easier to procure in Japan. Given these factors, it is logical to assume that a form of international division of labor will emerge in the days ahead whereby Japan will initiate at home the production of a new product which has been developed using home-grown technologies but will shift its production to an overseas site only after the product has been sufficiently diffused. Thus, it is hard to imagine that overseas production by Japanese firms will grow lopsidedly in the days ahead as if it were an alternative to domestic production, resulting in the hollowing out of the manufacturing industry of our country. Some time ago Professor (Leonchev) said in his book: "The more the economy grows, the more complete, or self-sufficient, its industrial structure will become." In our country, too, the dynamics of the rising yen, which defines the economic environment, and of the expanding overseas production, which serves as another factor bolstering the economy, seems to be pushing our industrial structure toward a state of "completeness" in which equilibrium will be established between exports and imports. Be that as it may, considering the fact that not only domestic firms but also the firms operating abroad are increasing their investment in research and development activities within Japan at a significant pace, it seems that Japan will continue to play the role of a transmission base of technologies in the days ahead.

4. Outlook for Japan's Industrial Structure

Above is a general review of the direction of the changes now taking place in our industrial structure. The next question is, how will our industrial structure transform itself during the next 10 years as a result of these changes?

Two years ago, using the assumptions that by the year 2000 the exchange rate will reach the level of 100 yen to a U.S. dollar and the real growth rate of the global trade will be averaging between 3 percent and 3.5 percent a year, the Japan Development Bank prepared an industrial correlation projection table for the year 2000, showing how our economic and industrial structures will be shifting to a domestic demand-oriented model in the years ahead (for details, please see Japan Development Bank: CHOSA, Vol. III).

According to that study, while other Asian countries will continue to increase their exports, in Japan's case, due to the worsening trade friction and the expanding overseas production by Japanese manufacturers, the growth of its net exports will be somewhat less than the overall growth of the global trade. As for Japan's imports, the strong yen will make foreign goods cheaper, triggering more importation of manufactured goods; as a result, in the year 2000 external demand will be a negative contributing factor to our GNP. In the area of domestic demand, on the other hand, factors such as stable prices on the domestic market will facilitate firm growth of personal consumption and housing investment which in turn will induce more investment in plant and equipment, as a result, on the whole the private sector is expected to achieve smooth growth. On the government side, too, tax revenues will grow due, among other things, to rising corporate earnings resulting from expanding industrial output; thus, investment in public utilities will go on without dampening the expansionary business trends, and GNP will sustain growth at an average annual rate of about 3.5 percent. All this gives rise to the prospect that by the year 2000 our economy will have achieved the transition to a domestic demand-oriented model of economy.

Table: Industrial Structure Projected for the Year 2000

	Output Distribution Ratio			Employment Distribution Ratio		
	Actual		Projected	Actual		Projected
Sector of Industry	1980	1985	2000	1980	1985	2000
Primary Industry	3.0	2.8	1.6	12.7	10.8	6.4
Secondary Industry	54.8	54.2	53.4	34.4	34.4	30.0
Construction	10.2	8.0	6.5	10.3	9.7	9.4
Manufacturing	44.1	45.9	46.7	23.8	24.5	20.1
Material Processing	18.5	16.6	12.4	6.0	5.6	4.3
Processing/Assembling	25.9	29.3	34.3	17.7	19.0	15.76
Transportation Machinery	4.7	4.6	3.3	2.5	2.7	1.8
Other Machinery	9.0	13.2	21.2	5.5	6.7	6.3
Tertiary Industry	42.3	43.1	45.0	52.9	54.8	64.0
Commerce	9.5	9.3	8.7	17.9	18.0	17.3
Banking/Insurance	2.9	3.8	4.5	2.7	2.9	2.7
Transport/Communications	4.7	4.5	4.9	5.3	5.1	5.2
Services	15.0	15.8	17.3	21.8	23.8	33.8

(Source) Japan Development Bank: CHOSA, Vol III

Examining the distribution ratio of the industrial structure and the employment structure that can be projected for the year 2000 on the basis of the macro-framework as described above, in the production area to begin with, growth will be further accelerated in those segments that are geared to services and microelectronics in their orientation. In the case of the tertiary industry, as a result of the expected growth in such segments as banking and insurance, communications, and services provided for business offices, its component ratio will rise from 43 percent in 1985 to 45 percent in 2000. Within the manufacturing sector, the processing/assembling type of industry will register only low growth for transportation machinery due to further expansion of overseas production of Japanese cars. Nevertheless, as stated earlier, the industrywide demand for rationalization and reduction of labor will prompt steady production of general machinery, which in turn will create increased demand on the microelectronics industry for products such as electrical machinery; as a result, the component ratio of the processing/assemblying industry will rise sharply from 29 percent in 1985 to 34 percent in 2000. On the other hand, in the case of the material processing type of industry, despite the expected progress in its move to manufacture high value-added products, its component ratio in terms of output share will decline from 17 percent in 1985 to 12 percent in 2000 due to the growing importation of commonplace products. As a result, the component ratio of the secondary industry as a whole will decline slightly, from 54 percent in 1985 to 53 percent in 2000. Likewise, the component ratio of the primary industry, too, will decline from 3 percent in 1985 to 2 percent in 2000 due to growing imports, among other reasons.

But a look at the employment structure reveals a somewhat different picture. Over the period 1985 through 2000, the total number of employed workers is expected to increase by some 4.4 million—from 61.3 million to 65.7 million. But the increase will occur only within the tertiary industry—by 8.5 million, while both the primary and the secondary industries, with the exception of some intra-industrial segments, are expected to show a decline in the number of employed workers. This is so because, as it can be seen clearly in the plant and equipment investments now being made, continuing progress toward rationalization and reduction of labor, especially in the machine industry, will

further increase labor productivity (output divided by the number of workers), making it unlikely that a rise in production levels will necessarily create more jobs. The service industries, on the other hand, are lower in productivity and higher in labor intensity in comparison with the manufacturing; therefore, even if continuing trends toward OA should improve the productivity, the speed of growth of the service industries will be more readily visible in the employment distribution ratio than in the output distribution ratio. A projection by the Japan Development Bank is that the component ratio of the tertiary industry as a whole will rise by 9 percent, from 55 percent in 1985 to 64 percent in 2000.

Turning now to the outlook for the supply and demand picture on labor: as mentioned earlier, the current favorable business conditions, almost comparable to the "Iwado" boom period, have created a serious shortage of labor. The amount of overtime work being put in by workers is said to have reached the highest level since the high-growth period, and the unemployment rate has made a rapid recovery from 3 percent on the heels of the yen's rise to about 2.3 percent now. But it is questionable whether such tightness in labor's supply and demand situation in general will continue to prevail for the medium and long terms. What makes it questionable is that, despite the current boom as good as it is, the decline in the unemployment rate has stalled at the mid-2 percent level. By contrast, the jobless rate was only about 1.1-1.2 percent during the period 1960 through 1970. The current situation is indicative, more than anything else, of growing mismatch in the employment picture. Moreover, the population of our country is already aging rapidly. According to a projection as of January 1987 by the Institute of Population Problems, Ministry of Health and Welfare, over the 15-year period from 1985 to 2000 our population is expected to increase from 121.05 million to 131.19 million or by more than 10 million; of the increase, nearly 90 percent, or 8.87 million, will be senior citizens aged 65 or older; and the ratio of these senior citizens in percentage of the total population will soar from 10.3 percent in 1985 to 16.3 percent in 2000. For those aging workers with insufficient savings for their declining years it will be difficult to retire as soon as they reach the mandatory retirement age of 55 or 60. Recently a trend has begun to emerge whereby retired workers are being rehired; unless such employment of senior citizens is expanded further, the mismatch in the employment picture will grow increasing worse in the days ahead, and it is entirely conceivable that structural unemployment will increase while a significant shortage of young workers and a surplus of senior citizens prevail, side by side.

Incidentally, looking ahead on the basis of the future shape of our country's industrial structure as we have portrayed it above, there is another problem, which is the problem of unipolar concentration. Traditionally our country's regional economies have been dependent upon manufacturing industries, especially those of the material-processing type. For this reason, under the tide of industrial structural change from the heavy-and-big type to the light-and-small type—a trend that has developed in the aftermath of the oil shocks, regional economies have not only lagged behind but have been driven into a state of torpidness. Moreover, during these past 10 or so years, many makers of electrical machinery, the especially fast growing segment of the manufacturing industry, have established their operations in the outskirts of major metropolitan areas such as the northern Kanto region. Within metropolitan areas service industries are continuing to grow steadily; meanwhile, electric machinery makers and other machine industries, which are the growth industry of the manufacturing sector, are concentrated in regions such as northern Kanto, Koshin, and Tohoku. As a result, the growth-rate gap between these regions and other parts of the country has widened.

Assuming that this state of unbalance will continue in the regional industrial structure and considering this in conjunction with the trends toward microelectronics and services—the trends we noted earlier as part of the macro-framework for the year 2000, further concentration of economies and population, especially young workers, into metropolitan areas will be inevitable so long as the growth of labor-intensive service industries occurs mainly in the national capital zone. A tentative projection indicates that of the total increase in the number of employed workers during the period 1985 through 2000 70 percent will be concentrated in the southern Kanto region (Tokyo, Chiba, Saitama, and Kanagawa). In other regions, even if more microelectronics and other manufacturing businesses were established, there would not be much hope for a significant increase in the number of jobs for a variety of reasons, one of which is a drastic improvement in labor productivity. The manufacturing industry alone can do only so much to provide a region with sufficient employment opportunities, and opportunities that will increase with time; therefore, if we are to ensure our national growth and development while maintaining some degree of balance throughout the land, it will be necessary to try to broaden regional industrial bases through conscious efforts to foster in various regions such service industries that provide information, investigation, and advertisement services to other businesses—the segments of the service industry noted for fast growth—and research and development activities as well. Doing so, I should think, will play an important part in checking the spread of structural unemployment in the days ahead amid the trends toward microelectronics and services and in actualizing shorter working hours through work sharing.